# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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## FISCAL IMPACT STATEMENT

**LS 6575** | **NOTE PREPARED:** Dec 28, 2012
**BILL NUMBER:** SB 238 | **BILL AMENDED:**

**SUBJECT:** Charges For Consumer Loans And Credit Sales.

**FIRST AUTHOR:** Sen. Holdman | **BILL STATUS:** As Introduced
**FIRST SPONSOR:**

**FUNDS AFFECTED:** X **GENERAL** | **IMPACT:** State & Local
**DEDICATED**
**FEDERAL**

**Summary of Legislation:** The bill makes the following changes for purposes of the statutes that prescribe the maximum credit service charge for a consumer credit sale (other than a sale involving a revolving charge account) and the maximum loan finance charge for a supervised loan: (1) Increases the applicable amounts financed that are subject to the graduated service charge or loan finance charge percentages. (2) Increases the service charge or loan finance charge percentage that applies if the graduated percentages do not apply from 21% to 28%. The bill increases from 21% to 28% the permitted loan finance charge for consumer loans other than supervised loans.

The bill provides that the permitted loan origination fee for consumer loans other than supervised loans and for supervised loans is the greater of: (1) 2% of the loan amount (or 2% of the line of credit, in the case of a revolving loan); or (2) $60. (Current law provides that the permitted origination fee is 2% of the loan amount, or 2% of the line of credit for a revolving loan, for consumer loans other than supervised loans, and does not provide for any origination fee for supervised loans.)

The bill removes the provision that the permitted loan origination fee for a consumer loan other than a supervised loan is limited to 2% of the part of the loan that does not exceed $2,000 if the loan is not primarily secured by land.

**Effective Date:** July 1, 2013.

**Explanation of State Expenditures:** The bill could potentially increase the cost of borrowing for the state. However, it is unlikely that the state will incur any additional expenditure as the result of the provisions in this bill.

**Explanation of State Revenues:** *Summary:* The increase in maximum allowable charges and fees could lead to an increase in taxable income of the financial institutions. This could potentially increase the financial institution tax (FIT) deposited in state General Fund. The amount of this possible effect is indeterminable.

*Background:* The Indiana Uniform Consumer Credit Code (UCCC), IC 24-4.5, regulates the 'credit service charge' and 'loan finance charge' that a financial institution can charge for a consumer credit or a loan. 'Credit service charge' and 'loan finance charge' means the sum of: (1) all charges payable directly or indirectly by the buyer and imposed directly or indirectly by the seller as an incident to the extension of credit, and (2) charges incurred for investigating the collateral or credit-worthiness of the buyer. These regulations apply to all state-chartered financial institutions. This bill will increase the maximum allowable service and finance charges on credits and loans issued by the state-chartered financial institutions. Since these charges are mostly determined by market conditions and competition, this bill will not necessarily lead to increased borrowing cost to the consumers.

*Financial Institution Tax:* FIT is assessed at a rate of 8.5% of apportioned adjusted gross income of a financial institution. It applies to any business which is primarily engaged in the business of extending credit, engaged in leasing that is the economic equivalent of extending credit, or credit card operations. Insurance companies, international banking facilities, federally chartered credit unions, and S corporations are exempt. Local units of government are guaranteed distributions of FIT up to a certain amount, and the remaining revenue collected is deposited in the state General Fund.

**Explanation of Local Expenditures:** The bill could potentially increase the borrowing cost for local units of government. The amount of this possible effect is indeterminable.

**Explanation of Local Revenues:**

**State Agencies Affected:** Indiana Department of Financial Institutions.

**Local Agencies Affected:**

**Information Sources:**

**Fiscal Analyst:** Randhir Jha, 232-9556.